Title: The Financial Services and Markets Act 2000 (Regulated Activities etc.) (Amendment) Order 2025 **RPC Reference No:** RPC-HMT-5364(1) **Lead department or agency:** HM Treasury **Other departments or agencies:** Financial Conduct Authority	Impact Assessment (IA) **Date:** 19/05/2025 **Stage:** Final Stage IA **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:** Buy-Now, Pay-Later Team (BuyNowPayLater@hmtreasury.gov.uk)
Summary: Intervention and Options	**RPC Opinion:** GREEN

Cost of Preferred (or more likely) Option (in 2024 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
-£25.1m	-£20.1m	£2.3m	Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary?

Buy-Now, Pay-Later (BNPL) describes a type of interest-free instalment credit that allows borrowers to divide the cost of purchases into regular payments over a period not exceeding 12 months. Since these agreements are unregulated, companies offering them do not need to be authorised or regulated by the Financial Conduct Authority (FCA) and are not required to comply with the Consumer Credit Act 1974 (CCA), meaning customers lack crucial protections at the point of sale and when things go wrong. According to FCA data, around 14 million UK adults used BNPL products in the six months to 2023. When offered responsibly, BNPL can help consumers manage their finances and make purchases more affordable. However, research into the sector has identified potential risks for consumers, such as misleading promotions, lack of affordability assessments, and the possibility to create high indebtedness. Vulnerable consumers are most likely to report using BNPL, while 44% of frequent BNPL users are over-indebted (FCA Financial Lives 2022 survey). Given the widespread use and potential consumer harm risks of BNPL products, the Government is concerned that the BNPL sector largely sits outside the FCA's remit.

What are the policy objectives of the action or intervention and the intended effects?

BNPL products are currently unregulated. This means that users do not have the same consumer protections as those enjoyed by users of regulated credit products, such as credit cards and personal loans. The Government plans to introduce secondary legislation to bring BNPL under FCA regulation. Its proposed regulatory regime would ensure consumers are given clear information about BNPL products by firms and awarded key statutory rights like section 75 of the CCA (creditor is jointly and severally liable for breaches of contract or misrepresentation by suppliers in debtor-creditor-supplier agreements). They would also gain access to independent complaints handling through the Financial Ombudsman Service (FOS). Firms operating in this sector would come under FCA supervision and would have to undertake affordability assessments on potential borrowers as per FCA rules. The Government believes this will raise BNPL firms' standards and enhance consumer protections while also maintaining access to these popular and helpful products.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

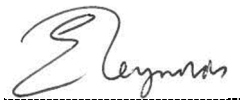
Three regulatory options have been considered:

1. Apply almost the full provisions of the CCA to BNPL products (consulted on in February 2023).
2. Disapply the CCA's provisions on information requirements for BNPL agreements, replacing them with FCA rules (consulted on in October 2024).
3. Defer regulation to CCA reform.

All three regulatory options would extend the scope of the Financial Services and Markets Act 2000 (FSMA) to regulate currently unregulated BNPL products. Additionally, a non-regulatory option to develop a voluntary code for BNPL firms was considered. There is also the option to 'Do Nothing,' maintaining the existing non-regulatory regime for BNPL products. The Government's preferred option is (2), i.e. to regulate BNPL products and to require lenders to provide information in compliance with FCA rules — instead of the CCA's provisions — at the point of agreement and throughout its duration. Lenders will come under the FCA's supervision and must follow its rules on affordability assessments. Borrowers will have access to the FOS and key consumer rights under the consumer credit regime, such as those in section 75 of the CCA. The Government favours this option as it believes it will ensure high standards of conduct among BNPL firms, provide consumers with clearer information, offer strong protections consistent with those for other lending products, and maintain access to these widely used products.

Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:** None	**Non-traded:** None	
Will the policy be reviewed? Yes. **If applicable, set review date:** Q3/2030				

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:  Date: 28 April 2025

Summary: Analysis & Evidence Policy Option 2

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2024	PV Base Year 2026	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -31.7	**High: -19.1**	**Best Estimate: -25.4**

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition)	Total Cost (Present Value)
Low	8.6	2026	1.2	**19.1**
High	14.3		2.0	**31.7**
Best Estimate	11.5		1.6	**25.4**

Description and scale of key monetised costs by 'main affected groups'

The main affected group is firms offering newly regulated BNPL agreements. These firms will be subject to the consumer credit regulatory framework, incurring costs for FCA authorisation, compliance with FCA rules, annual FCA fees and levies, access to the FOS, and CCA requirements. Ten unauthorised firms will need to pay a £5,440 fee each to the FCA for authorisation, with additional administrative costs estimated between £2,441.25 and £4,068.75 per firm. Registering under the Temporary Permissions Regime (TPR) will cost each firm a one-off fee of £350. Compliance with FCA rules will incur total one-off costs of £6,121,950 and ongoing annual costs of £511,350. Annual FCA fees and levies for the 20 identified firms are estimated at £8,585,697. FOS case fees are estimated at £694,850, and compliance with section 75 of the CCA is estimated to cost £98,507 for setup and £412,000 annually. Bringing BNPL firms under FCA supervision will also result in one-off costs to the FCA of approximately £5,100,000. Additionally, familiarisation with the relevant legislation is estimated to cost all firms a total of £42,434.60. These costs are detailed in the 'Monetised costs' section.

Other key non-monetised costs by 'main affected groups'

Firms offering currently-exempt BNPL products will face additional costs once the FCA finalises its detailed rules. Lenders will incur one-off costs to update pre-contractual information and credit agreements in line with new FCA rules. Ongoing costs will arise from undertaking affordability assessments, potentially through the use of data from credit reference agencies. Domestic premises suppliers who introduce customers to third-party BNPL lenders will need to be authorised as credit brokers. This means that they will incur costs under the FCA's full permissions regime; alternatively, they can become an appointed representative of an authorised firm.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	2026	0.0	**0.0**
High	0.0		0.0	**0.0**
Best Estimate	0.0		0.0	**0.0**

Description and scale of key monetised benefits by 'main affected groups'

Given the data limitations and uncertainty around FCA rules, the Government cannot provide precise estimates for the value of benefits to lenders and consumers associated with newly-regulated BNPL agreements. However, we expect the regulatory regime will lead to better lending decisions through affordability assessments on borrowers, reducing arrears and default rates — this might lower impairment provisioning for bank lenders and funding costs for non-bank lenders. For consumers, clear information about BNPL agreements should help them better understand whether an agreement is right for them, prevent missed payments, and reduce the frequency of late fees.

Other key non-monetised benefits by 'main affected groups'

Benefits for businesses: Potential reputational gains from a regulated market, with both consumers and merchants feeling more confident in using and offering BNPL at checkout.

Benefits for consumers: Consumers will benefit from higher conduct standards from lenders, clearer information about BNPL agreements, access to protections when things go wrong, reduced problem debt and financial hardship, and improved credit scores for timely settlements.

Benefits for merchants: Merchants will see increased consumer confidence in BNPL. If they are not domestic premises suppliers, they will continue not to incur costs under the FCA's full permissions regime for credit broking.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5%

All costs are estimated based on available data and proxy costs from similar policies. These estimates are informed by discussions with the FCA, feedback from the Government's consultations in October 2021 and February 2023, and broader stakeholder analysis. Future rules from the FCA, which are not yet designed, will determine additional costs. The FCA will be conducting a cost benefit analysis (CBA) on those new rules.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual)			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: £2.3m	**Benefits:** 0.0	**Net: £2.3m**	11.7

Evidence Base

Problem under consideration and rationale for intervention

1. Currently, there is an exemption from consumer credit regulation under FSMA for credit agreements that meet these conditions:

    - The agreement is a borrower-lender supplier agreement for fixed-sum credit;
    - The number of payments to be made by the borrower is not more than 12;
    - Those payments are required to be made within a period of 12 months or less; and
    - The credit is provided without interest or charges.

2. This exemption is specified in article 60F(2) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the RAO).

3. The article 60F(2) exemption aimed to exclude low-risk credit agreements from most consumer credit regulation, particularly informal payment plans offered by Small and Medium Enterprises (SMEs) not primarily engaged in financial services.

4. This exemption has been increasingly utilised to offer BNPL agreements, particularly for online shopping, where the consumer deals with a third-party lender. These agreements are typically low-value and short-term.[1]

5. Due to this exemption, BNPL and other agreements which fall withing the article 60F(2) exemption are not required to comply with provisions of the Consumer Credit Act (CCA). Firms only offering these types of agreements do not need to be authorised and regulated by the FCA and are not under the jurisdiction of the FOS.

6. The BNPL market in the UK has grown rapidly, evolving from obscurity to a mainstream payment option. In 2021, over 20,000 merchants offered BNPL at checkout, a figure the Government believes has at least doubled as of November 2024.[2]

7. Recent FCA data estimates that around 14 million consumers (27% of UK adults) used BNPL products in the six months to January 2023.[3] Confidential data from the FCA estimates that the total value of BNPL transactions has risen from £6.4bn in the 12 months to March 2022 to at least £9.6bn in the 12 months to March 2023.

8. Consumer spending on credit cards, however, continues to dwarf spending using BNPL products; data shows that in August 2024 alone UK consumers spent £20.9bn using credit cards in the UK and abroad.[4]

9. The BNPL market is expected to continue growing over the next year. However, it may soon reach maturity, which would result in a slower pace of growth between 2025 and 2027.[5]

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[1] In the six months to January 2023, the average outstanding balance of a current BNPL user was £236: https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (p. 17).
[2] 2021 figure: https://www.bain.com/globalassets/noindex/2021/bain_report_buy_now_pay_later-in-the-uk.pdf (p. 6). Klarna reports that over 40,000 merchants offer its BNPL product at checkout: https://www.klarna.com/international/press/klarna-to-fuel-ps30bn-expansion-with-uk-loans-partnership/.
[3] https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (p. 7).
[4] https://www.ukfinance.org.uk/system/files/2024-11/Card%20Spending%20Update%20-%20August%202024.pdf (p. 1).
[5] Mintel, *UK Buy Now, Pay Later Financing Market Report 2022*, p. 20.

10. The market is dominated by three firms: Klarna, Clearpay, and PayPal. Klarna and PayPal offer both regulated lending products and unregulated BNPL products, while Clearpay focusses solely on unregulated BNPL. Other firms also provide unregulated BNPL, either as their main product or alongside regulated credit, but not on the same scale as these three firms.

11. Some credit products, though resembling unregulated BNPL with time-limited interest-free instalment repayments, are actually regulated credit agreements. Not reliant on the article 60F(2) exemption, these include:

    - Regulated BNPL-like products, where no or reduced interest or charges are payable by the borrower if the borrower repays all or a specified part of the credit by the end of a promotional period.
    - Instalment plans offered within running account credit agreements, where a firm enables a consumer to split a transaction made using the running account product into instalments. The firm may impose a charge to split a payment into interest-free instalments or charge a fee or interest on the instalments themselves. Notable providers of these types of products include Zilch, alongside Monzo with its 'Flex' product.

12. With the rapid growth of the BNPL market, concerns about potential consumer harm and lack of regulation have increased. In February 2021, the *Woolard Review* published by the FCA identified several risks of consumer detriment from BNPL products.[6] The main risks identified in the review include:

    - how BNPL products are promoted to consumers and presented as payment options;
    - misunderstanding of BNPL by consumers, including the absence of information given to consumers about the features of agreements;
    - the absence of any requirements to undertake affordability assessments;
    - the potential to create high levels of indebtedness;
    - inconsistency of treatment of customers in financial difficulty; and
    - impacts on the wider credit market including little visibility of BNPL debts on an individual's credit file.

13. In response to the *Woolard Review*, in February 2021 the government announced its intention to regulate unregulated BNPL products. To enable this, an amendment to the Financial Services Bill was tabled in March 2021. This amendment (now section 37 of the Financial Services Act 2021) empowers the Treasury to exclude certain CCA provisions for BNPL agreements brought under consumer credit regulation.

14. The Government published two consultations in October 2021 and February 2023 on regulating BNPL.[7] However, legislation was not introduced before Parliament was dissolved in May 2024.

15. Officials have conducted an extensive literature review on the BNPL market, including consulting published research from consultancies and advocacy groups. Responses to the two consultations also contributed to our understanding of this market.

16. The unregulated nature of this market, and therefore lack of oversight by any single regulatory body, meant that evidence was often qualitative and anecdotal, as well as limited

[6] https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

[7] https://www.gov.uk/government/consultations/regulation-of-buy-now-pay-later-consultation; https://www.gov.uk/government/consultations/regulation-of-buy-now-pay-later-consultation-on-draft-legislation

due to the emerging nature of the BNPL market. Despite this, the analysis indicated potential consumer harm from BNPL, including:

- **Problem debt**: While BNPL debts are interest-free if repaid on time, research by Citizens Advice showed that almost a third of the BNPL users it surveyed in November 2023 had borrowed from elsewhere to pay off BNPL debts in the previous 12 months.[8]
- **Late fees**: Although unregulated BNPL providers do not charge interest, harm can arise from late fees. A survey by the Money and Pensions Service found that 14% of BNPL users had paid a late fee, and the FCA's Financial Lives 2022 survey revealed that 19% of users of fee-charging providers were unaware of the fees.[9]
- **Impulse buying**: Research has indicated that BNPL can lead to impulse buying, with a study by the Money and Pensions Service finding that 38% of BNPL users spent more than they planned to because BNPL options were available at checkout.[10] Similarly, the Money and Mental Health Policy Institute found that 43% of BNPL users who reported mental health problems believed that the availability of BNPL products at checkout encouraged them to spend more than they usually would.[11]
- **Lack of redress**: Consumer groups have highlighted that BNPL users currently lack the legal rights to redress that are available to users of regulated credit products. This includes the protections offered by section 75 of the CCA, which allows consumers to claim refunds from their lender for purchases between £100 and £30,000, and access to the FOS for dispute resolution.[12]

17. The risks of harm could be heightened for vulnerable customers. Based on a representative YouGov survey, StepChange's response to the October 2021 consultation concluded that BNPL is used by individuals who are either experiencing or are at risk of financial difficulty. The survey shows that half of BNPL users struggle to keep up with household bills and credit repayments.[13] Which? research found that BNPL users were often time-poor, present-oriented, and open to risk, and had frequently experienced a recent life event or payment default.[14]

18. At the same time, there are also benefits to BNPL products. The FCA's Financial Lives 2022 survey reported that 46% of users used BNPL products for their interest-free nature; 40% used these products to buy goods they could not afford in one go; and 30% used them to help with budgeting.[15] Which? research also shows that consumers appreciate the specific repayment schedules provided by BNPL products.[16]

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[8] https://www.citizensadvice.org.uk/wales/about-us/media-centre/press-releases/15-million-people-likely-to-use-unregulated-buy-now-pay-later-to-help-ease-seasonal-spending/

[9] https://maps.org.uk/content/dam/maps-corporate/en/publications/research/2023/buy-now-pay-later-review-of-the-market-risks-and-trends-june-2023.pdf; https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (p. 4).

[10] https://maps.org.uk/content/dam/maps-corporate/en/publications/research/2023/buy-now-pay-later-review-of-the-market-risks-and-trends-june-2023.pdf (p. 27).

[11] https://www.moneyandmentalhealth.org/wp-content/uploads/2020/11/Convenience-at-a-cost-final-web-report.pdf (p. 19).

[12] https://www.moneysavingexpert.com/loans/buy-now-pay-later/; https://www.moneyhelper.org.uk/en/everyday-money/credit/what-are-buy-now-pay-later-purchases.

[13] https://www.stepchange.org/media-centre/press-releases-bnpl-consumer-struggles.aspx

[14] https://www.which.co.uk/policy/money/7601/buynowpaylater

[15] https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (p. 13 and p. 16).

[16] https://media.product.which.co.uk/prod/files/file/gm-9ba39c29-c09b-4a29-b905-41094fd371ba-bnpl-risks-to-consumers-report.pdf (p. 10)

19. Merchants partnering with BNPL providers have also reported benefits such as new brand exposure through co-marketing (54%), increased basket conversion at checkout (57%), and various customer acquisition and experience benefits (90%).[17] This can be particularly advantageous for SMEs, as offering BNPL does not require them to be FCA-authorised and regulated as credit brokers.

20. Although not within the financial services regulatory perimeter, consumers benefit from existing protections when using BNPL products, such as:

- **Advertising and financial promotions rules**: Allowing the FCA to intervene and withdraw problematic marketing material, as it did in August 2022 with adverts for BNPL products that emphasised benefits without sufficiently disclosing relevant risks.
- **The Consumer Rights Act 2015**: Enabling the FCA to act against unclear or unfair contract terms by BNPL providers. The FCA last used these powers in October 2023 against two BNPL firms.
- **The Consumer Protection from Unfair Trading Regulations 2008**: Addressing misleading or aggressive marketing practices by firms.

Policy objectives

21. Continued reports of consumer harm potentially arising from the use of BNPL products indicate that the current consumer protections are insufficient to address all potential risks. Therefore, the Government's policy objectives in this area are that BNPL borrowers enjoy a similar level of protection to those using other consumer credit products, such that:

- Lenders only lend to individuals who can afford to repay the loan;
- Consumers understand the key features and risks associated with these financial products;
- Consumers have access to independent dispute resolution through the FOS;
- Consumers benefit from key protections under the CCA, such as those provided by section 75;
- Borrowers experiencing financial difficulties are treated fairly and with appropriate forbearance; and
- Regulation is balanced in such a way that it does not negatively impact competition and innovation within the broader consumer credit and payments markets.

22. Potential indicators of success include:

- An increase in awareness among BNPL users regarding potential late fees;
- A reduction in the percentage of users missing payments or making late repayments; and
- Firms dealing with complaints in accordance with recognised procedures and providing referral rights to FOS, as well as improved visibility of emerging issues through data from the FOS, enabling proactive measures to address these problems.

Description of options considered

23. The Government has considered three regulatory options. alongside a voluntary code for BNPL firms and the option to 'Do Nothing'.

'Do Nothing'

[17] https://www.bain.com/globalassets/noindex/2021/bain_report_buy_now_pay_later-in-the-uk.pdf (pp. 38-41).

24. Under this option, the A60F(2) exemption would remain unchanged, with BNPL products remaining unregulated. Firms offering these agreements would not need authorisation from the FCA to offer them or comply with the CCA's provisions and FCA rules. Firms would not be required to undertake affordability checks on borrowers, consumers would continue to have no access to the FOS and lack the rights afforded to users of regulated credit products, such as section 75 of the CCA. However, broader consumer protections would still apply.

25. This approach would not address the potential consumer risks identified in the *Woolard Review* and elsewhere around BNPL. Without regulation, and as the BNPL sector continues to grow, these risks could increase — especially for vulnerable consumers. Additionally, the uneven playing field between unregulated lenders offering BNPL and lenders offering regulated credit products would continue. The Government therefore does not believe this approach meets its objectives.

Voluntary code

26. Under this option, the Government would collaborate with lenders, regulators, and consumer groups to promote best practices in the industry and safeguard consumers.

27. A voluntary code could allow merchants and consumers to continue benefiting from BNPL products while mitigating risks, as lenders agreeing to the code would enhance consumer protections.

28. However, the adoption of such a code would likely be inconsistent across the sector, leading to consumer confusion about their rights and varying levels of protection depending on the lender. Without enforcement, breaches of the code would give rise to limited sanctions, even if monitored by an independent body. Additionally, only reputable providers might comply, leaving firms with lower conduct standards outside the code's scope and posing risks.

29. Therefore, the Government is not convinced that a voluntary industry code would effectively protect consumers from the potential risks of BNPL provided by third-party lenders, nor would it align with the Government's priority to swiftly regulate these products.

Regulatory option 1: Regulate BNPL agreements with broad application of the CCA's provisions

30. The Government's preference is to regulate BNPL agreements provided by third-party lenders, bringing these lenders under the FCA's oversight. Regulation would offer consumers strong rights and protections, with the FCA able to enforce conduct rules. The FCA has experience in taking on new regulatory responsibilities, such as the regulation of claims management companies and funeral plan providers. It also already oversees the wider consumer credit sector.

31. In February 2023, the Government launched a consultation on a regulatory regime for BNPL; the consultation closed in April 2023, receiving 53 responses.[18] Stakeholders supported the intention to regulate BNPL and particularly welcomed the extension of rights under section 75 of the CCA to consumers using these products. They also supported consumers having recourse to the FOS.

32. However, some respondents criticised the broad application of the CCA, especially concerning the information requirements that agreements would need to meet under the CCA. BNPL firms argued that many of these requirements are unsuitable for BNPL, adding

[18] https://www.gov.uk/government/consultations/regulation-of-buy-now-pay-later-consultation-on-draft-legislation

that the CCA's paper-oriented prescriptive form and content requirements are incompatible with the needs of consumers typically taking out BNPL agreements online or on mobile devices. They also provided estimated costs for implementation, which were significant, and pointed to research indicating giving consumers information in line with the CCA's provisions does not improve consumer outcomes. Other stakeholders, including several consumer groups, also felt that the CCA's information requirements do not help consumers understand the terms of their agreements for currently regulated credit products or their responsibilities under them.

33. The Government acknowledges stakeholder concerns regarding the CCA's information requirements and has concluded that a regulatory regime for BNPL products which applies these would be disproportionate. Moreover, although a consultation will be necessary, the Government plans to reform the CCA more broadly for the entirety of the consumer credit market. As part of this process, the Government intends to repeal most provisions related to information requirements, allowing the FCA to develop a new, modern disclosure regime for all consumer credit products.

34. On this basis, the Government does not believe the regulatory regime consulted on in February 2023 meets its objectives for regulating BNPL.

Regulatory option 2: regulate BNPL agreements with FCA rules for information requirements (PREFERRED)

35. This regulatory option — the Government's preferred choice — would provide consumers with the same protections as described in 'Regulatory option 1' above: firms would be brought under the FCA's oversight; consumers would be given rights under section 75 of the CCA alongside access to the FOS.

36. However, in response to stakeholder feedback from the February 2023 consultation, the Government intends to disapply the CCA's provisions on information requirements for newly-regulated BNPL agreements. The FCA will be tasked with developing a tailored information disclosure regime specifically for BNPL agreements.

37. As part of reforms to the CCA, a new disclosure regime is expected to be introduced for all consumer credit products. The Government will assess in due course where the BNPL information disclosure regime fits into a reformed CCA.

38. Most importantly, this approach will enhance consumer understanding of BNPL products. It will also reduce the need for BNPL firms to undergo two costly rounds of system changes once the CCA reforms are implemented.

39. The Government published a consultation in October 2024 on a regulatory regime incorporating these proposals.[19] Responses were keen to see action in this space and generally indicated broad support for disapplying CCA information requirements, so that a framework tailored to BNPL products' characteristics can be developed. Some responses raised concerns about the potential growth of merchant-offered credit; while the Treasury has not seen evidence to suggest this is likely, it will continue to monitor this part of the BNPL market and adapt its approach if necessary. Some respondents highlighted the value of limited prescription in pre-contractual information to enable consumers to compare BNPL products.

[19] https://www.gov.uk/government/consultations/regulation-of-buy-now-pay-later-consultation-on-draft-legislation-october-2024

40. A formal consultation response will be published at the same time as this Impact Assessment.

Regulatory option 3: Defer regulation to CCA reform

41. The Government is committed to reforming the CCA to ensure it reflects the modern credit landscape and better serves consumers and businesses. The reform aims to simplify the regulatory framework, making it more accessible and understandable for consumers, while also ensuring that lenders adhere to high standards of conduct. By modernising the CCA, the Government seeks to create a more efficient, fair, and competitive credit market that benefits all stakeholders.

42. While integrating the regulation of BNPL products into CCA reform would allow the Government to consider these products alongside other similarly used products that may pose risks of consumer detriment — including future new products — this comprehensive reform effort is expected to take several years to complete. Consequently, it does not align with the Government's objective of urgently introducing regulation for BNPL products to protect consumers. The pressing need to safeguard consumers necessitates immediate regulatory action, which the Government concludes cannot be delayed until the broader CCA reform is finalised.

Preferred option and next steps

43. The Government's preferred option is the 'Regulatory option 2' described above. This would bring BNPL agreements offered by third-party lenders into regulation through secondary legislation. The Government will lay this legislation at the same time as publishing this IA. Regulation is set to come into force twelve months and one day after the secondary legislation is made.

44. The FCA will consult on the rules for newly regulated agreements, including a cost benefit analysis (CBA). The specific details of these rules will be determined through the FCA's rule-making process, which includes consultation and a CBA. While full details of the FCA's regime are not available at this stage, it is possible to quantify certain costs associated with the FCA such as compliance with the Consumer Duty and the Senior Managers & Certification Regime (SM&CR). These costs are detailed below.

Rationale for the level of analysis used in the Impact Assessment

45. The Government has followed the Better Regulation Framework Manual's guidance on proportionate analysis for this Impact Assessment.[20]

46. Several factors influenced the resource investment for this analysis:

- The policy is not novel or contentious, with support from stakeholders and Parliament, which explicitly sanctioned regulation of the BNPL sector when it passed the amended Financial Services and Markets Act 2023.
- The approach is broadly in line with the regulation of other financial services and, more specifically, consumer credit services.

20 https://assets.publishing.service.gov.uk/media/65420ee8d36c91000d935b58/Better_Regulation_Framework_guidance.pdf

- The impact on businesses depends on the FCA's finalised rules, which are yet to be consulted on.
- The FCA will conduct its own CBA and consult with its independent CBA panel.

47. This Impact Assessment details the costs in areas where the Government has a sufficiently firm understanding of the financial impact on businesses. This includes costs related to FCA authorisation, regulatory compliance, and adherence to the Consumer Duty.

48. The Government has used estimates from a survey of firms alongside an annual report for one firm filed at Companies House. The data is accurate as of November 2024. Quantitative data is limited due to the unregulated nature of the market and its rapid changes. This makes it challenging to fully understand lenders' revenues and business models.

49. This Impact Assessment has been conducted to the best of our abilities given data limitations. It has been conducted proportionately to the policy's expected impact, with the understanding that the FCA will complete a CBA in due course to consider the costs and benefits of its rules for BNPL lending.

50. Currently, as outlined in the 'Do Nothing' option, firms offering BNPL products do not incur the costs typically associated with regulated consumer credit lending, such as FCA fees, compliance with the FCA's Consumer Duty and rules, and section 75 of the CCA. **This serves as the baseline for the costs and benefits estimated in this Impact Assessment.**

Monetised and non-monetised costs and benefits: introduction

51. Firms offering newly regulated agreements will be subject to the existing consumer credit regulatory regime, including elements under FSMA and CCA frameworks and new and existing FCA rules. The five key measures resulting in costs to firms are:

- FCA authorisation (including the TPR)
- Compliance with FCA rules
- Annual FCA fees/levies
- Recourse to the FOS
- CCA requirements

<u>FCA authorisation (including the TPR)</u>

52. Under FSMA, firms undertaking regulated financial services must be FCA-authorised unless exempt.

53. Currently, we estimate that 10 third-party lenders offering only currently unregulated BNPL agreements will need FCA authorisation. However, the sector's unregulated and evolving nature makes definitive numbers uncertain.

54. Firms like Klarna and PayPal already offer regulated credit agreements and therefore will have existing authorisation from the FCA for carrying out consumer credit activities.

55. Firms offering BNPL-like products with an interest element are already FCA-authorised, since these are already regulated credit agreements.

56. The FCA will implement a TPR to support the transition to regulation (and early supervision of) currently unauthorised firms. Firms in the TPR will pay a registration fee and will be deemed authorised under Part 4A of FSMA by the FCA to temporarily offer relevant regulated BNPL products. The FCA will supervise and enforce actions against firms in the TPR.

57. Once BNPL becomes a regulated activity, new agreements entered into by firms in the TPR (as well as those entered into by firms who are already authorised by the FCA) will be regulated credit agreements. Firms that exit the TPR for new lending without obtaining authorisation from the FCA for BNPL lending will be prohibited from entering into new agreements. This is because they will no longer be deemed authorised under Part 4A of FSMA for entering into a regulated BNPL agreement as lender.

58. As stated above, firms exiting the TPR without obtaining authorisation from the FCA for BNPL lending will be prohibited from entering into new agreements; however, they will still have temporary permission to exercise, or have the right to exercise, a lender's rights and duties under an existing regulated agreement and will remain under FCA supervision and enforcement — up to a maximum of two years following a refusal of authorisation. This is to allow lenders to service agreements with balances beyond the normal contractual term, such as forbearance arrangements.

Compliance with FCA rules

59. Once BNPL becomes a regulated activity, firms must comply with the relevant FCA rules. The FCA has rules for regulated credit agreements on creditworthiness assessments of borrowers, rules on forbearance and supporting customers in financial difficulty. The FCA will consider whether these should also apply to BNPL, and whether any modifications might be needed.

60. BNPL firms will also need to comply with new rules on information requirements instead of the CCA's provisions. The FCA will determine the exact rules through its usual rule-making process, including consultation and CBA.

61. Overarching requirements like the Consumer Duty and the Senior Managers & Certification Regime (SM&CR), as well as rules on systems and controls, will apply, ensuring firms meet core standards and comply with detailed rules.

Consumer Duty

62. Introduced in July 2023, the Consumer Duty raises care standards for all financial services firms, requiring them to deliver good outcomes for retail customers. Firms must:

- Act in good faith toward retail customers
- Avoid causing foreseeable harm
- Enable and support customers to pursue their financial objectives

63. Firms' governing bodies must ensure the Consumer Duty is embedded, and firms must proactively address customer harm, including providing redress.

Senior Managers & Certification Regime (SM&CR)

64. The FCA's SM&CR is designed to minimise consumer harm and strengthen market integrity by establishing standards of personal conduct for individuals working in financial services. It includes specific requirements for senior managers and those in roles that may pose a risk

to firms and their customers. The SM&CR applies to nearly all firms regulated by the FCA, ranging from very small to large global companies. Although the Government intends to consult on replacing the Certification Regime part of the SM&CR, it currently remains in effect. Consequently, lenders offering agreements that will become regulated, and who therefore need FCA authorisation, will be subject to the SM&CR, which will incur costs.

65. The SM&CR requires the pre-authorisation of all individuals who perform a 'controlled function' for an authorised firm. The controlled functions are those roles for a regulated consumer credit firm that have a particular regulatory significance. Examples are being a director of a regulated firm or being responsible for regulatory compliance.

FCA fees and levies

66. Fees allow the FCA to recover the costs of delivering its priorities and achieving its objectives. Generally, fees are divided into periodic (annual) fees and application/transaction/notification fees. The FCA is also legally required to collect certain levies for government departments (to fund services such as free debt advice and enforcement action against illegal money lenders), alongside other organisations including the FOS.

67. The FCA groups firms into fee-blocks based on similar permissions to distribute recovery costs. Costs are allocated to fee-blocks in line with the regulatory costs of those activities, with annual adjustments.

68. Within most fee-blocks, all firms pay a minimum fee. Larger firms, whose fees exceed a certain threshold, pay an additional variable fee. Consumer credit firms fall into either fee-block CC.1 (limited permission) or CC.2 (full permission). Firms with a regulated income above £250,000 pay a variable fee on top of the minimum fee.

69. FCA fees and levies do not at present account for unregulated BNPL lending. When regulation comes into force, FCA-authorised firms will likely see an increase in their fees and levies to reflect income from newly regulated agreements.

Recourse to the Financial Ombudsman Service (FOS)

70. Regulated BNPL agreements offered by third-party lenders will fall under the FOS's jurisdiction, which already handles complaints against FCA-regulated firms.

Consumer Credit Act (CCA) requirements

71. The CCA applies to regulated consumer credit, placing statutory obligations on firms and providing consumer protections.

72. Key rights and protections, such as withdrawal and early repayment, will apply to newly regulated BNPL agreements. Section 75 of the CCA makes creditors jointly liable for suppliers' breaches or misrepresentations for purchases between £100 and £30,000.

73. The CCA and subordinate legislation specify information disclosure requirements at various stages of an agreement. The Government plans to reform these outdated provisions in due course but will disapply them immediately for BNPL regulation, including sections on:

- Pre-contractual information (sections 55 and 55C)

- The form, content and execution of agreement form and content (sections 60, 61, and 61A)
- Ongoing information requirements (sections 77, 77A, 77B)
- Notices of sums in arrears and default sums (sections 86B and 86E)
- Default notices (section 87)
- Information for particular circumstances (sections 76, 82, 97, 97A, 98, and 103)[21]

Credit broking

74. Under the current consumer credit regulatory framework, when a business introduces a customer to a lender with the intention of the customer entering into a regulated credit agreement, the business is engaging in the regulated activity of credit broking. To undertake this activity, they must have authorisation from the FCA unless an exemption applies.

75. The Government considers that bringing BNPL products under credit broking regulation would impose significant burdens on merchants. This would involve obtaining FCA authorisation, monitoring compliance, submitting data, notifying the FCA of any business changes, and paying fees. These requirements could lead to considerable costs, particularly affecting small and micro businesses. Consequently, many of these merchants might stop offering BNPL products at checkout, which would reduce consumer choice and give larger merchants, who are often already authorised for credit broking, a competitive edge.

76. The Government therefore plans to exempt all merchants who refer customers to BNPL products (e.g. at online checkout) — except those operating as domestic premises suppliers (see Paragraph 78) — from needing to become FCA-authorised credit brokers. Consequently, merchants falling under this exemption will not incur costs related to FCA authorisation.

77. The Government does not believe this will reduce consumer protections. For instance, merchants cannot issue their own financial promotions about BNPL products unless they have authorisation from the FCA. Furthermore, when consumers are directed to a BNPL provider during the checkout process, they will receive pre-contractual information in line with FCA rules. These rules will ensure consumers are well-informed about the BNPL agreement they may enter into and their obligations under it.

78. However, merchants who operate as domestic premises suppliers (i.e. brokering BNPL agreements in-person in a consumer's home) will need to obtain credit broking permissions from the FCA. This requirement is based on the Government's assessment that there is a higher likelihood of pressure selling occurring when any credit agreement is brokered in a consumer's home. This measure therefore aims to safeguard consumers by ensuring that merchants adhere to stricter regulatory standards when brokering credit in a domestic setting.

Note on methodology

79. The estimated monetised costs have been calculated separately for the five measures described above that will incur costs to businesses. These costs and benefits have been evaluated against the 'Do Nothing' option, meaning the Government has not considered the

[21] Such as where an agreement is amended (section 82) or a borrower repays early (section 97).

benefits of not applying the CCA's provisions on information requirements. The Government believes this would only be relevant if the baseline were the regulatory regime consulted on in February 2023, which has been deemed unviable from the outset. Unless otherwise stated, the 'low' and 'high' costs are 75% and 125% of the 'best' estimates.

80. Costs included in the Equivalent Annual Net Direct Cost to Business figure on page 4 are:

- FCA authorisation
- Compliance with FCA rules
- Recourse to the Financial Ombudsman Service
- Claims under section 75 of the Consumer Credit Act
- Familiarisation with the legislation

81. The estimates for costs to businesses rely on limited quantitative data available on the BNPL market. Additionally, some expected costs depend on the final approach the FCA will take after consulting on its proposed rules. The FCA cannot provide a detailed estimate of annual fees for firms due to insufficient information on firms' finances and uncertainty about how many firms will seek authorisation.

82. There will also be a one-off cost to the FCA for bringing BNPL within its regulatory remit. The FCA has supplied the Government with an estimate of these costs.

83. Reasonable proxies have been used for much of the required data. This data has been provided by the FCA, industry, and consumer groups in response to the Government's three consultations on regulating BNPL. Publicly available sources have also been used for calculations.

84. Unless otherwise specified, costs have been adjusted where necessary to 2024 prices using the Bank of England's 'Inflation calculator', which utilises the Consumer Price Index for October 2024.[22] None of the figures in the following section have been discounted: only the final Equivalent Annual Net Direct Cost to Business figure on page 4 is discounted.

Monetised costs

Cost to firms of seeking FCA authorisation

85. Based on its understanding of the sector, the Government assumes that 20 firms will offer regulated BNPL agreements under the FCA regime. This estimate includes 10 firms that are already authorised and 10 firms that are currently unauthorised. However, due to the evolving and currently unregulated nature of the market, collecting accurate data on the number of such firms is challenging.

86. This Impact Assessment assumes that 10 unauthorised firms will need to apply for FCA authorisation. It is uncertain whether the FCA will require authorised firms to apply for a 'variation of permission' to cover BNPL lending. If this does happen, the FCA will consider it in its CBA.

[22] https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator

87. Unauthorised lenders offering agreements that will become regulated must pay a fee to the FCA for processing their authorisation applications. This payment is due upon submitting their application.

88. Firms needing FCA authorisation are expected to fall within the FCA's category 5 fee band, resulting in a £5,440 authorisation fee per firm.[23]

89. Additionally, firms will face one-off administrative costs during the FCA authorisation process, which includes filling in forms and responding to queries from the FCA. According to the FCA's CBA for claims management companies published in 2018, the Government assumes that this process will require 5 working days of a compliance officer's time. Using data on average weekly earnings from the Office for National Statistics, we estimate a 2024 hourly rate of £93 for a compliance officer (adjusted from the FCA's 2018 figure of £65), which equates to £651 per day (based on a 7-hour working day).[24] This indicates costs for firms seeking authorisation of between £2,441.25 and £4,068.75 each.

90. The Government assumes all 10 firms will register for the TPR while seeking full FCA authorisation. The FCA will outline the application steps and associated fees in its consultation.

91. The FCA has not yet determined the exact TPR fee. Based on similar regimes, a comparable example is the consumer credit interim permissions regime, which had a one-off application fee of £350 for all firms (lower for sole traders). While this may be insufficient to cover the TPR's costs given the small number of unauthorised firms, the Government considers it the most appropriate proxy currently.

92. Based on this figure, unauthorised firms would pay a one-off cost of £3,500 to enter the TPR. This has been assessed against a zero-baseline cost.

93. The Government and the FCA expect minimal administrative processes for TPR registration, with the registration fee being the only significant cost.

94. The table below reflects the Government's assumption that 10 firms will need to apply for FCA authorisation.

ONE-OFF COST

Incurred in 2026 (expected), £ at 2024 prices

	FCA Authorisation Fees
Best	90,450
Low	82,312.50
High	98,587.50

Compliance with FCA rules

[23] https://www.handbook.fca.org.uk/handbook/FEES/3/Annex1A.html

[24] https://www.fca.org.uk/publication/consultation/cp18-15.pdf (p. 68). The average weekly earnings of a worker in SIC 2007 sections K-N — which would include a compliance officer — has increased by 43% from June 2018 (when the report was published) to September 2024: https://www.ons.gov.uk/file?uri=/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsearn01/current/earn01nov2024.xls.

95. As outlined earlier, firms authorised by the FCA must adhere to its rules. These include conducting affordability and creditworthiness checks before lending, setting forbearance rules, supporting customers in financial difficulty, and maintaining robust systems and controls. Firms will incur one-off costs for familiarising themselves with FCA rules, training staff, and updating systems and processes. There will also be ongoing costs to ensure continued compliance.

96. The exact details of these rules will be determined following the FCA's standard rule-making process, which involves consulting on proposed rules and conducting a CBA as required by FSMA. Therefore, we cannot specify the full details of the FCA's regime at this stage.

97. However, we can outline the one-off and ongoing costs that currently unauthorised firms will incur to comply with the Consumer Duty and the SM&CR. These provisions are central to firms' compliance with the FCA's regime. The Consumer Duty outlines the standard of care firms should provide to consumers, while the SM&CR sets the standards expected of management. Although these costs do not encompass all potential compliance costs from FCA rules, they serve as a reasonable proxy given the unknown detailed rules.

98. The 10 firms already authorised by the FCA should already be compliant with FCA rules for their regulated lending. While these firms will incur some costs from extending compliance processes to their unregulated BNPL products, these costs are expected to be minimal.

99. Firms new to FCA regulation will likely be classified as 'Core' firms under the SM&CR, given that they will have full permission for consumer credit. The average costs of the SM&CR for a 'Core' firm are outlined in a publicly available 2018 FCA report.[25] Adjusted to 2024 prices, the costs are as follows:

- **One-off costs**: £28,081 (low: £21,060.75; high: £ 35,101.25)
- **Annual ongoing compliance costs**: £21,542 (low: £16,156.50; high: £26,927.50)

100. These costs cover:

- **Senior Managers Regime**: One-off costs for setting up systems and making organisational changes.
- **Certification**: One-off costs for system changes to accommodate certification requirements.
- **Continuing fitness and propriety checks**: Both one-off system change costs and ongoing costs for annual checks on senior managers and certified persons.
- **Rules of conduct**: One-off costs for system changes to track individuals subject to conduct rules and to notify and train them accordingly.

101. The costs for complying with the Consumer Duty are also detailed in an 2021 FCA report, which provides 'low case' and 'high case' estimates for one-off costs (e.g. familiarisation, gap analysis, training, change projects, IT projects) and annual ongoing compliance costs for firms.[26] From these estimates (adjusted to 2024 prices) and the number of firms we expect to seek authorisation (10), we have been able to calculate a best-case estimate:

- **One-off costs**: £584,114 (low: £438,085.50; high: £730,142.50)
- **Annual ongoing compliance costs**: £29,593 (low: £22,194.75; high: £36,991.25)

[25] https://www.fca.org.uk/publication/research/cost-benefit-analysis.pdf (pp. 51-52).
[26] https://www.fca.org.uk/publication/consultation/cp21-36.pdf (pp. 90-92).

102. Firms offering currently unregulated BNPL who are already regulated by the FCA must be Consumer Duty compliant for the regulated business that they undertake. Extending this compliance to their currently unregulated BNPL products will incur some costs, but these will vary depending on existing firm practices and are difficult to estimate. The Government therefore estimates Consumer Duty compliance costs for the 10 unregulated firms only.

ONE-OFF COST

Incurred in 2026 (expected), £ at 2024 prices

	Compliance with FCA rules – one-off costs
Best	6,121,950
Low	4,591,462.50
High	7,652,437.50

ONGOING COST

Beginning in 2026 (expected), full year amounts £ at 2024 prices

	Compliance with FCA rules – ongoing costs
Best	511,350
Low	383,512.50
High	639,187.50

FCA fees and levies

103. All firms identified as providing agreements that will come under regulation must pay FCA fees and levies.[27] These firms will be classified under the consumer credit (CC) fee-block, with their fees based on the income derived from regulated consumer credit activity. The FCA anticipates that unauthorised firms will fall into fee-blocks CC02 (applicable to full permission consumer credit firms) and CC03 (applicable to certain lending permissions, outlined in FEES 7A Annex 2).[28]

104. Annual FCA fees and levies cover the cost of regulation for a year. For firms in fee-block CC02, fees are based on annual income: the higher a firm's income from consumer credit activities, the higher the fee. For firms in fee-block CC03, fees are based on the value of lending. Therefore, firms offering agreements that will come under regulation and currently authorised by the FCA for other consumer credit activities will see an increase in levies once BNPL is regulated. This increase will account for their annual income and the value of lending from newly-regulated activities.

105. The FCA collects fees and levies on behalf of other financial regulatory system organisations, including the Financial Services Compensation Scheme (FSCS), the FOS, and the Money and Pensions Service (Financial Guidance Levy and the Debt Advice Levy). On behalf of HM Treasury, it also collects the levy for the Illegal Money Lending Teams.

106. As noted, based on its current understanding the Government assumes there are 20 firms (10 authorised and 10 unauthorised) that will offer newly regulated agreements. It

[27] https://www.fca.org.uk/firms/fees
[28] https://www.handbook.fca.org.uk/handbook/FEES/7A/Annex2.html?date=2024-11-15#D114

estimates that all 20 firms will fall into the highest FCA fee block (with over £250k income from consumer credit activities), meaning an additional fee or levy on income over £250k. The FCA's fee and levy rates for this fee block for 2024/25 are detailed below.[29]

FCA annual fee £	**Financial Guidance levy (FGL) £**	**FOS annual levy £**	**IML annual levy £**	**FSCS base levy**	**FGL CC03**	**DAL CC03**
1,750 plus 1.764 per £1,000/part £1,000 of income	10 plus 0.0883 per £1,000/part £1,000 of income	35 plus 0.952 per £1,000/part £1,000 of income	10 plus 0.266 per £1,000/part £1,000 of income	0.028959 per £1/part £1 of FCA CC02 fee	168.32 per £1m/part £1m of value of lending	22.747 per £1m/part £1m of value of lending

107. According to the annual report filed at Companies House, the largest currently unauthorised BNPL lender in the UK had a 2022 income of £127.5 million, with £92.5 million from agreements that will soon be regulated. Using the FCA's online fees calculator, this firm would pay £429,284.87 in annual FCA fees and levies for 2024/25.[30] This assumes that the lender's income has remained the same. The breakdown of these costs is provided below.

FCA annual fee £	**Financial Guidance levy (FGL) £**	**FOS annual levy £**	**IML annual levy £**	**FSCS base levy**	**FGL CC03**	**DAL CC03**
226,219.00	11,246.18	121,177.00	33,858.50	6,551.09	15,569.60	2,104.10

108. It is currently difficult to accurately estimate the costs for other lenders. This is because their Companies House accounts do not provide detailed income breakdowns, or their income from agreements to be regulated cannot be separated from currently regulated lending.

109. As a result, the Government has estimated costs by multiplying the example firm's costs by the assumed population of 20 lenders. The Government understands that a few FCA-authorised firms have larger incomes from these agreements than the example lender, while other lenders have similar or smaller incomes.

ONGOING COST

Beginning in 2026 (expected), full year amounts £ at 2024 prices

	FCA Annual Fees/Levies
Best	8,585,697.40
Low	6,439,273.05
High	10,732,121.75

Recourse to the Financial Ombudsman Service (FOS)

[29] All FCA fees and levies for 2024/25 are contained in the following report: https://www.fca.org.uk/publication/policy/ps24-5.pdf.
[30] Fees calculator: https://www.fca.org.uk/firms/calculate-your-annual-fee/fee-calculator.

110. Once unregulated BNPL agreements provided by third-party lenders become regulated, consumers will be able to take complaints about firm conduct related to these agreements to the FOS. In 2022/23, the FOS received 39,607 complaints about consumer credit products; 4,536 of these complaints were about point-of-sale loans (non-motor).[31]

111. The FOS is funded through a combination of case fees — currently £650 per complaint — and a levy on the industry, collected through the FCA's annual levy (see above). The FOS offers three free cases for all businesses outside of 'group account' fee arrangements. This is reviewed annually as part of the FOS's 'Plans and Budget'.

112. Consumer credit lending in the UK totalled £353 billion in 2023.[32] According to FCA data (which cannot be shared here), BNPL transactions amounted to about £9.6 billion in the 12 months to March 2023, representing roughly 2.7% of consumer credit lending. To estimate FOS case fee costs, we assume the FOS would receive 1,069 complaints annually about BNPL products (2.7% of 39,607). Multiplying 1,069 by the £650 case fee results in £694,850 across all firms.

113. There may be additional costs for BNPL providers to reimburse customers for upheld complaints. However, it is currently challenging to predict how many complaints the FOS may uphold and what redress methodology they might adopt. Therefore, these costs are not quantified in this Impact Assessment.

ONGOING COST

Beginning in 2026 (expected), full year amounts £ at 2024 prices

	FOS case fee costs
Best	694,850
Low	521,137.50
High	868,562.50

Consumer Credit Act (CCA) requirements: section 75 claims

114. In February 2023, the Government consulted BNPL firms on projected costs for complying with some of the CCA's provisions on information requirements and section 75. Because the Government no longer plans to apply the CCA's provisions on information requirements, we have only calculated the costs for complying with section 75 ('Liability of creditor for breaches by supplier') here.

115. Once BNPL agreements are regulated, borrowers will be able claim against lenders under section 75 of the CCA for issues with purchases costing between £100 and £30,000. Confidential data from the FCA reveals that many BNPL transactions are under £100 in value and, as a result, would not qualify for a section 75 claim.

116. Lenders will need systems to manage these claims. Our data from firms consulted indicates that the average cost for a firm to establish these systems, including familiarisation

[31] https://www.financial-ombudsman.org.uk/news/financial-ombudsman-service-reveals-top-five-complained-products; https://www.financial-ombudsman.org.uk/files/324243/Annual-complaints-data-2022-23.xlsx

[32] https://www.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NIxSTxTAxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2023&TD=31&TM=Dec&TY=2023&FNY=&CSVF=TT&html.x=135&html.y=40&C=O0N&Filter=N

costs and system changes, is £98,507. We understand, however, that some firms already have procedures in place for handling returns as well as customer complaints about faulty goods: this may lead to lower costs when implementing systems to manage section 75 claims.

117. After setting up systems, our data from firms consulted suggests that it would cost a firm an average of £412,000 per year to process section 75 claims, covering the cost of successful claims and customer engagement. However, it is important to note that this average is influenced by the estimates from the largest BNPL firms. We anticipate that smaller firms will have fewer claims and, consequently, lower costs.

ONE-OFF COST

Incurred in 2026 (expected), £ at 2024 prices

	Compliance with section 75 of the CCA
Best	98,507
Low	73,880.25
High	123,133.75

ONGOING COST

Beginning in 2026 (expected), full year amounts £ at 2024 prices

	Compliance with section 75 of the CCA (large firms)
Best	412,000
Low	309,000
High	515,000

Familiarisation with the legislation

118. In addition to the five main costs outlined above, BNPL firms must familiarise themselves with the Statutory Instrument (SI) and the CCA to comply with the new regulatory regime for BNPL products. This will result in one-off costs to firms.

119. For both pieces of legislation, the Government has estimated these familiarisation costs by considering the time required to read them. This calculation is based on the word count of the legislation, the text's complexity (as determined by its Flesch Reading Ease score, which has been estimated at 30-50 ['Difficult']), and the hourly rate of an external legal professional to review the legislation.

120. The Government has assumed that external legal professionals will be paid an hourly rate of £380. This is based on the Government's published guidance on the hourly rate for solicitors, last updated in January 2025, which has been downrated to 2024 prices here.[33] The rate reflects central London rates, as legal expertise in financial services is concentrated in City law firms. It also reflects the middle range for solicitors in the Government's guidance

[33] https://www.gov.uk/guidance/solicitors-guideline-hourly-rates

— i.e. solicitors with over four years of experience. This is also in acknowledgment that various legal professionals with different experience levels will undertake this work.

121. In addition to this legislation, firms will also need to familiarise themselves with FCA rules for BNPL lending. However, since these rules have not yet been drafted, the Government cannot provide cost estimates for them. The FCA will address these costs in its own CBA.

SI familiarisation costs

ONE-OFF COST

Incurred in 2026 (expected), £ at 2024 prices

Number of words in the SI (rounded to the nearest 100)	**Words read per minute**	**Hourly rate (£)**	**Number of firms affected**	**Familiarisation costs per firm (£)**	**Familiarisation costs for all firms (£)**
6,000	100[34]	380	20	380[35]	7,600 (Best)
					5,700 (Low)
					9,500 (High)

CCA familiarisation costs

122. The 10 authorised firms should already be familiar with the CCA due to their experience in offering regulated credit products. However, the 10 unauthorised firms will need to acquaint themselves with it.

123. The printed version of the CCA is 207 pages long, with around 350 words per page. Approximately 50 of these pages detail provisions that the SI is disapplying. Consequently, firms will need to engage legal professionals to read and interpret the remaining 157 pages of legislation, which amounts to roughly 55,000 words.

ONE-OFF COST

Incurred in 2026 (expected), £ at 2024 prices

Number of words in the relevant parts of the CCA (rounded to the nearest 100)	**Words read per minute**	**Hourly rate (£)**	**Number of firms affected**	**Familiarisation costs per firm (£)**	**Familiarisation costs for all firms (£)**
55,000	100[36]	380	10	3,483.46[37]	34,834.60 (Best)

[34] The upper limit of reading speed for 'Difficult' text has been applied, considering that legal professionals will be reviewing the legislation.

[35] To calculate this figure, the total number of words in the SI has been divided by the assumed words read per minute. Based on this calculation, it would take a legal professional approximately 60 minutes, or one hour, to read and understand the SI.

[36] Again, the upper limit of reading speed for 'Difficult' text has been applied.

[37] Once more, to calculate this figure, the total number of words in the relevant parts of the CCA has been divided by the assumed words read per minute. It would take a legal professional approximately 9 hours and 10 minutes to read and understand the legislation.

	26,125.95 (Low)
	43,543.25 (High)

124. Legal professionals will be able to determine which pieces of secondary legislation under the CCA firms need to be aware of. Some of this legislation concerns the CCA's information requirements, which are being replaced with FCA rules for BNPL agreements (and which will be covered in the FCA's subsequent CBA when it designs these rules).

125. Firms will also need to familiarise themselves with FCA rules for BNPL lending. However, since these rules have not yet been drafted, the Government cannot provide cost estimates for them. The FCA will address these costs in its own CBA.

Costs to the FCA for bringing BNPL into regulation

126. Bringing BNPL providers under the regulatory oversight of the FCA will involve a variety of one-off costs. These costs are associated with:

- technology and data transition
- staffing for policy, legal, strategy, and market research
- project management
- proposition and communications support
- operating model and process design
- development of any additional rules for BNPL firms in the FCA Handbook; and
- setting up a TPR.

127. These costs will be recouped through a supplementary levy on all new BNPL providers and existing lenders who may engage in BNPL activity, spread over several years. This levy will commence when the amended regulatory framework takes effect, expected in April 2026. The duration of this supplementary levy is yet to be determined, but it will be set at a sustainable level once there is a clearer understanding of the overall transition costs.

128. The FCA has initially estimated the cost of the transfer to be £5.1 million. However, the range of transition costs incurred by the FCA will depend on several policy decisions that are yet to be finalised, making this figure an early estimate.

ONE-OFF COST

Incurred in 2026 (expected), £ at 2024 prices

	Costs to the FCA for bringing BNPL into regulation
Best	5,100,000
Low	3,825,000
High	6,375,000

Summary tables of monetised costs

One-off costs (£)

Cost	Best	Low	High	Included in EANDCB?
FCA authorisation	90,450	82,312.50	98,587.50	Yes
Compliance with FCA rules	6,121,950	4,591,462.50	7,652,437.50	Yes
Compliance with section 75 of the CCA	98,507	73,880.25	123,133.75	Yes
Familiarisation with the legislation	42,434.60	31,825.95	53,043.25	Yes
Costs to the FCA for bringing BNPL into regulation	5,100,000	3,825,000	6,375,000	No

Ongoing costs (£)

Cost	Best	Low	High	Included in EANDCB?
Compliance with FCA rules	511,350	383,512.50	639,187.50	Yes
FCA fees and levies	8,585,697.40	6,439,273.05	10,732,121.75	No
FOS case fees	694,850	521,137.50	868,562.50	Yes
Compliance with section 75 of the CCA	412,000	309,000	515,000	Yes

Unquantifiable costs

Financial promotions

129. BNPL firms offering newly regulated agreements will not need FCA authorisation for communicating their own financial promotions, as they will already be FCA authorised. Similarly, merchants already authorised as credit brokers will not need additional approvals for their promotions.

130. However, merchants brokering newly regulated agreements and wishing to communicate financial promotions that are not approved by a BNPL firm must have them approved by an

authorised person. Once authorised by the FCA, BNPL firms with the relevant permission can approve these promotions, reducing costs for firms. Alternatively, merchants can seek approval from another authorised person with the necessary permissions.

131. Approval of these promotions incur administrative costs for both the merchant and the person approving them. Due to a lack of data on merchants solely brokering these agreements and their likelihood of seeking bespoke promotions, the Government cannot quantify these costs.

132. In practice, however, the Government expects BNPL firms will generally provide pre-approved promotional materials to merchants as part of their commercial agreements. This will minimise costs for unauthorised merchants and lenders.

Creditworthiness and affordability checks

133. The FCA will require firms to conduct affordability and creditworthiness assessments for BNPL agreements, similar to other regulated credit agreements. Lenders typically use data from credit reference agencies (CRAs) for these assessments, although it is not a regulatory requirement (nor is it currently a requirement to report data to CRAs).

134. CRAs charge lenders for each consumer credit file search. Under the new regulatory regime, BNPL firms may wish to conduct a separate search for each BNPL agreement a borrower takes out. It is ultimately the FCA which will draft and finalise the specific rules regarding this requirement. Some providers already treat their agreements as regulated and perform CRA searches, so they will not face additional costs for these assessments.

135. Without detailed data on the number of individual agreements offered by lenders, the Government cannot quantify potential costs. The FCA will assess these costs in its CBA.

136. One consequence of following the FCA's rules on affordability and creditworthiness checks is that BNPL firms implementing stricter checks on potential borrowers than they currently do might see an increase in rejected applications. This would reduce the number of transactions made using BNPL products. However, due to insufficient data and uncertainty about the FCA's specific rules on affordability and creditworthiness checks for BNPL lending, we are currently unable to estimate the potential costs associated with this increase.

137. Individuals who are rejected for BNPL loans due to heightened affordability checks may turn to alternative credit options, such as high-cost credit products. These products, often characterised by higher interest rates and fees, can result in increased financial strain to borrowers. The Government notes that the FCA already regulates these high-cost credit products and has established rules in its Consumer Credit sourcebook (CONC) to ensure responsible lending practices.

Costs to domestic premises suppliers

138. A 'domestic premises supplier' is a business or individual that provides goods or services to consumers at their home or other domestic premises. This category can include various types of suppliers, such as those offering home improvement services, utility services, and other personal services that are typically carried out at a consumer's residence.

139. Merchants brokering BNPL agreements in customers' homes will be classed as domestic premises suppliers and will need to obtain credit broking permissions from the FCA due to the higher-risk nature of these transactions.

140. The Government lacks detailed information on domestic premises suppliers likely to be regulated by the FCA. These suppliers will likely face costs similar to those outlined previously, including authorisation fees and the FCA's fees and levies.

Non-monetised benefits

Benefits to lenders

141. If lenders offering newly-regulated BNPL agreements report data to CRAs — which the Government strongly supports — other consumer credit market lenders will gain better visibility of these agreements on consumers' credit files. This allows for more accurate creditworthiness assessments and potentially reduces arrears and default rates. It may also lower impairment provisioning for bank lenders and funding costs for non-bank lenders. However, due to data limitations and uncertainty around exactly how these benefits might materialise, the Government has not quantified these benefits.

142. Lenders in the newly-regulated BNPL market might also gain reputational benefits from the regulatory regime being in place, customer recourse to the FOS, and proactive addressing of poor practices. They could benefit from better lending decisions, risk management, and financial stability due to FCA regulation. As with the previous benefits, the Government has not quantified these due to uncertainty around exactly how these benefits might materialise.

Benefits to consumers

143. Bringing BNPL agreements under FCA regulation is expected to benefit consumers through improved information, lending decisions, and service standards due to regulatory requirements on customer treatment.

144. The Government believes that regulation will mitigate the risk of financial difficulty by ensuring lenders extend credit only to those who can afford to repay, as per FCA's rules on affordability and creditworthiness. More tailored pre-contractual information and clear agreement terms mandated by the FCA should help consumers understand payment schedules, reducing the risk of missed payments.

145. Comprehensive information from firms about BNPL products and affordability checks on borrowers could significantly impact late fees. Lenders in the consumer credit market often charge late fees to cover costs or as an additional revenue stream. Consumers using BNPL products are estimated to have paid £39 million in late fees from September 2020 to September 2021.[38] More recent data shows that 21% of BNPL users missed or made late payments in the 12 months to November 2023.[39] However, a Barclays survey revealed that 1 in 5 BNPL users were unaware of late fees, a finding corroborated by research from the

[38] https://assets.ctfassets.net/mfz4nbgura3g/2HrgJLUkApEw5bWJioaX2x/cee00f3c3401a3401b7c6135c9a43d92/BNPL_20Debt_20Collection_20_1_.pdf

[39] https://www.citizensadvice.org.uk/wales/about-us/media-centre/press-releases/15-million-people-likely-to-use-unregulated-buy-now-pay-later-to-help-ease-seasonal-spending/

Money and Pensions Service and the Behavioural Insights Team, which reported similar unawareness in 22% of respondents.[40]

146. With new regulatory requirements for providing information before and during agreements, consumers are likely to save on late fees due to increased clarity on repayment schedules and better indications that late fees will be charged for late repayments. Additionally, fewer consumers may enter unaffordable agreements, either by opting out due to better information or by failing newly-required creditworthiness and affordability assessments.

147. Consumers facing financial difficulty will also benefit from greater protection under FCA rules, which require lenders to show forbearance. This should mitigate the risk of short-term financial issues leading to long-term debt. The FCA's Consumer Duty is also expected to improve outcomes for these borrowers.

148. Including on-time BNPL payments in credit reports is likely to improve an individual's creditworthiness and therefore their credit scores.[41] This could help consumers with previously adverse credit events; it could equally benefit those with limited credit histories, such as younger consumers (who also are more likely to use BNPL).

Impact on small and micro businesses (including merchants)

149. While the main players in the BNPL market are large, international companies or their subsidiaries, the Government has identified from Companies House returns that there are five small businesses which currently provide unregulated BNPL products.[42] These businesses will therefore be impacted by the new regulatory regime for BNPL products.

150. The five small businesses already hold authorisation from the FCA for consumer credit lending and thus offer various regulated credit products to consumers alongside BNPL products. One of these businesses is also the UK arm of the largest BNPL firm in the United States. Given this, the Government believes these businesses are unlikely to face difficulties in adapting to the new regulatory requirements for BNPL lending. However, it acknowledges that new small and micro businesses entering the market will need to take into account the costs and operational challenges of providing a regulated credit product.

151. The Government notes that the risk to consumers from using BNPL products is not diminished when the lender is a small or micro business. In fact, these smaller businesses often have less financial resilience compared to larger financial institutions, which could limit their ability to handle financial shocks, such as an accumulation of late payments from customers. Consequently, they might resort to aggressive debt collection practices, placing extra pressure on consumers already experiencing financial difficulties. Therefore, the Government considers it essential to have thorough regulatory oversight and consumer protection measures in place to safeguard consumers, regardless of the size of the BNPL firm they borrow from. As such, the Government does not intend to exempt small and micro businesses from regulation.

152. However, for merchants offering BNPL at checkout, the Government's proportionate approach to regulation aims to minimise burdens on smaller merchants who only broker

[40] https://home.barclays/news/2021/11/-barclays-reveals-pitfalls-of-unregulated-bnpl-agreements-for-ch/; https://maps.org.uk/content/dam/maps-corporate/en/publications/research/2023/buy-now-pay-later-review-of-the-market-risks-and-trends-june-2023.pdf

[41] https://www.experian.co.uk/consumer/help-discover/discover/guides/short-term-buy-now-pay-later.html

[42] There is also one micro business, but it has ceased lending at the present time.

agreements being brought into regulation (and are not domestic premises suppliers). These firms may prefer brokering these agreements due to the current lack of FCA authorisation requirements. Under the Government's regulatory regime for BNPL products, all merchants regardless of business size are exempt from credit broking regulation if they solely broker BNPL agreements. For small and micro businesses especially, this will spare them the costs of FCA authorisation and fees. This will help small and micro-businesses compete with larger, already regulated merchants.

153. Some domestic premises suppliers that will require credit broking permissions for offering newly-regulated BNPL may also be small or micro businesses. The Government is aware that some of these suppliers are already FCA-authorised as credit brokers, as they broker both regulated and currently-unregulated agreements.

154. More broadly, due to limited evidence, the Government has found it challenging to fully assess the impacts on small and micro businesses. The consultation in February 2023 sought feedback on the regulatory impact on small and micro businesses, but no substantive feedback was received.

Risks and unintended consequences: FCA rules

155. The Government has conducted three rounds of consultations regarding the regulation of BNPL products. With two of these consultations, draft legislation for bringing these products into regulation was open for feedback. As a result, the Government is confident that its regulatory regime for BNPL products is both robust and aligned with the expectations of the BNPL sector and consumer groups.

156. As highlighted throughout this Impact Assessment, the responsibility for drafting rules on BNPL lending —notably around information disclosure — will rest with the FCA. The Government anticipates that these rules will be in harmony with the FCA's Consumer Duty, focusing on outcomes-based regulation.

157. There is a possibility that the FCA's final rules may incorporate a level of prescriptiveness that the BNPL sector might find excessive, or conversely, that these rules might not be as stringent as consumer groups would prefer. To mitigate this risk, the FCA will publish a consultation to ensure that all stakeholders have the opportunity to voice their opinions before the rules are finalised. This inclusive approach gives the Government confidence that the FCA's final rules will effectively address the needs and concerns of all parties involved.

158. The 'Wider impacts' section which follows provides an overview of the other risks related to competition in the consumer credit sector and the effects of regulation on consumers.

Wider impacts

Impact on competition and the wider credit market

159. The Government does not anticipate a significant impact on market competition among firms offering newly regulated agreements or within the broader consumer credit market. In fact, data from the FCA indicates that there is a correlation between the use of BNPL products and the use of other credit products, such as credit cards.[43]

[43] https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (pp.21-22).

160. The regulation of BNPL products aims to enhance competition by improving transparency and ensuring a level playing field for lenders. However, assessing this impact is challenging due to limited evidence. Despite seeking stakeholder input during the February 2023 consultation, no substantial feedback was received.

161. The Government has considered the possibility that some BNPL firms might exit the market rather than comply with the new regulatory regime, potentially shrinking the sector similarly to the payday loan market after increased regulation. However, given that BNPL firms have largely welcomed the prospect of regulation — and since the proposed regulatory regime disapplies CCA provisions on information requirements identified as costly by the BNPL sector — the Government thinks large-scale exits are exceedingly unlikely.

162. However, it is possible that regulation could impact smaller firms for whom BNPL revenue constitutes only a tiny portion of their overall income. The FCA is aware of at least one regulated firm where unregulated BNPL accounts for less than 1% of their revenue. For these firms, it is uncertain whether they would find it worthwhile to continue their currently unregulated BNPL activities considering the regulatory costs.

163. The Government also understands that there is a niche market for BNPL lending to sole traders, which would fall under the BNPL regulatory regime for loans of £25,000 or less. Participants in this market might choose to focus on unregulated, interest-bearing business lending instead to avoid the costs of regulation. However, due to a lack of data on these firms and their products, the Government cannot accurately assess the costs if these firms were to withdraw from the market.

164. Exempting merchants from credit broking regulation may incentivise some merchants to exclusively offer BNPL products as to avoid costs associated with credit broking permissions. This would potentially limit consumer choice and impact the competitiveness of non-BNPL point of sale credit agreements, leading to a market where BNPL options dominate. However, the Government believes that other consumer credit products will continue to be a fundamental part of point-of-sale finance, especially for higher-value purchases, ensuring that consumers retain access to a broad range of financing options. The Government routinely monitors the consumer credit market and will consider the impact of this exemption once BNPL products enter regulation.

165. Finally, the Government's analysis of current market dynamics does not indicate an imminent market shift upon the introduction of a regulatory regime for BNPL products that would reduce the ability of smaller BNPL firms to compete. Importantly, several of these firms offer BNPL products for certain services (such as healthcare and dentistry) that cater to specific consumer needs, which can help them maintain their market position. Additionally, consumer demand for flexible payment options remains strong, providing a stable foundation for smaller BNPL companies to thrive by offering innovative services to potential merchant partners.

<u>Impact on the mainstream BNPL model</u>

166. The Government's assessment is that the consumer credit regulatory framework would not allow BNPL firms to circumvent regulation. For example, one key aspect of this framework is that if BNPL products were to include interest charges, they would automatically be classified as regulated credit agreements under the CCA. Furthermore, while the Government believes it is inherently improbable that BNPL firms would offer repayment terms extending beyond 12 months, should they choose to do so, these longer-

term agreements would also fall under the category of regulated credit agreements as defined by the CCA.

167. The Government therefore believes that any changes firms make to their BNPL products would be driven by new requirements within the regulatory regime. In this context, the Government has explored whether firms might adopt a running account model, similar to a credit card, to bypass the need for conducting affordability checks on each BNPL transaction (there would be a single, overarching credit limit instead).

168. The Government considers it unlikely that there will be a widespread shift to this model. The standard BNPL approach relies on being seamlessly integrated into a merchant's checkout system as a payment method. While merchants could promote a running account option without needing credit broking permissions, incorporating this option into their checkout systems would necessitate such permissions. Since obtaining credit broking permissions involves both initial and ongoing expenses, the Government views it as improbable that merchants currently offering BNPL will widely choose to acquire these permissions — particularly small and micro business merchants.

169. The Government notes that Monzo Flex and Klarna Card, both running account credit options, are now available for use when purchasing goods through Apple Pay. Despite the convenience of these products at checkout, the Government believes that options, such as these, which begin to accrue interest when someone chooses to pay over time or if a payment is missed, may not appeal to all consumers. This is something that BNPL firms will take into account when designing their credit offerings.

Impact on borrowing costs and the cost of goods

170. Since BNPL loans are directly tied to the purchase of goods, BNPL firms cannot directly increase borrowing costs for consumers, except by potentially raising fees for late payments.

171. However, if BNPL firms decide to increase the transaction fees they charge to merchants, it is possible that merchants might respond by raising the prices of their goods to cover these additional costs. Merchants would need to consider whether this price increase could turn off consumers who use debit cards or other forms of credit, as they may decide not to purchase the goods due to the higher prices.

172. Alternatively, merchants might choose to stop offering BNPL options altogether if the transaction fees become too high. On the other hand, there is substantial evidence to suggest that providing BNPL options at checkout can lead to larger basket sizes.[44] Merchants would then need to carefully consider what effect withdrawing BNPL options would have on sales and overall profits, balancing the potential increase in transaction fees against the benefits of increased sales through BNPL options.

Impact on innovation

173. Regulation is not expected to significantly affect innovation among firms providing these agreements. The Government recognises that consumer credit product design continues to

[44] For example: https://www.bain.com/globalassets/noindex/2021/bain_report_buy_now_pay_later-in-the-uk.pdf (p. 46: 20-30% increase in average order value); https://maps.org.uk/content/dam/maps-corporate/en/publications/research/2023/buy-now-pay-later-review-of-the-market-risks-and-trends-june-2023.pdf; https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (p. 27: 38% of those surveyed spent more because BNPL was available); https://www.imperial.ac.uk/business-school/ib-knowledge/marketing/what-the-rise-buy-now-pay-later-means-consumers-and-retailers/ (10% increase in basket size).

evolve. Some regulated credit agreements now mimic many features of BNPL, indicating that regulation does not hinder innovation.

Impact on the availability of credit

174. The Government acknowledges that there could be a tightening of the availability of BNPL products once they enter regulation, particularly for those with poor credit histories. However, the aim of the Government's regulatory regime is to prevent irresponsible lending practices that could lead to financial distress for consumers. By ensuring that credit is extended only to those who can afford it, the Government believes that its regulatory regime for BNPL products will ultimately benefit consumers in the long term.

Impact on consumers' credit reports and credit scores

175. Once BNPL firms come under the oversight of the FCA, they will be required to follow its rules regarding affordability checks for borrowers. Although using credit reports is not obligatory for these checks, it remains the conventional practice, and many firms are likely to adopt it. To access details about consumers' credit agreements and debts, BNPL firms will need to provide information about their own customers' BNPL agreements, including on-time payments, missed payments, and settled agreements.

176. Including on-time BNPL payments in credit reports is likely to improve an individual's creditworthiness and boost their credit scores. Conversely, failing to make BNPL payments on time or missing payments altogether could harm an individual's creditworthiness and negatively impact their credit scores — potentially for a significant period of time.

177. The Government therefore believes that regulating BNPL products could increase consumers' awareness of the importance of maintaining a good credit history. Regulation may encourage consumers to be more diligent with their BNPL payments, thereby promoting better financial habits and overall financial health.

Equality impacts

178. The Government, under the Public Sector Equality Duty (section 149 of the Equality Act 2010), must consider whether the proposed regulation will affect those with protected characteristics, aiming to eliminate discrimination and advance equality.[45]

179. FCA data indicates that BNPL usage is broadly the same across the sexes, but varies by age, ethnicity, and household income. For example, in the six months to January 2023:

- **Sex**: Usage among men was 26% and women 28%.
- **Age**: Younger adults used BNPL more frequently, with the highest usage in the 25-34 age group (39%), followed by 35-44 (34%), and 18-24 (33%). Usage declined significantly in older age groups, with only 9% of those aged 65+ using BNPL.
- **Ethnicity**: Minority ethnic groups had a higher usage rate (34%) compared to non-minority groups (26%).
- **Household Income**: Usage varied with income, being higher in lower to middle-income brackets, particularly those earning less than £15k (31%), £15k-<£30k (31%), and £30k-<£50k (32%). It was lower for those earning £50k+ (21%).[46]

[45] The protected characteristics under the Equality Act 2010 are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
[46] https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (p. 8).

180. FCA data also shows that adults with characteristics of vulnerability — which includes poor health, negative life events, and low resilience — are more likely to use BNPL products, with 53% of users in the 12 months to May 2022 having one of these characteristics. Notably, 37% of users in this period exhibited low financial resilience (i.e. against financial shocks), rising to 50% among the most frequent users.[47]

181. The proposed regulatory regime for BNPL aims to mitigate the negative impacts of BNPL use across different groups sharing particular protected characteristics. For example, creditworthiness and affordability assessments will help users — including those with protected characteristics — access credit responsibly and avoid problem debt. The Government will continue to consider and address equality impacts as regulation progresses.

Potential trade implications of measure

182. There is no expected impact on international trade and investment. Lenders which seek to provide agreements that will be brought into regulation will be required to be based in the UK in order to become FCA authorised, in line with other providers of regulated consumer credit agreements.

Monitoring and evaluation

183. The FCA will be responsible for the monitoring and evaluation of the intervention. The FCA is independent, but HM Treasury will engage with the FCA to understand the outcome of its monitoring and evaluation.

184. Under article 13 of the draft legislation (and in accordance with requirements under sections 28 and 30 of the Small Business Enterprise and Employment Act 2015), the Government proposes to review the legislative provisions and publish a report setting out the conclusions of the review at least every five years.

185. This review is likely to evaluate whether BNPL regulation has effectively achieved the Government's objectives concerning consumer protection and affordable lending practices. It is also likely to examine changes in consumer behaviour and levels of indebtedness, and access to BNPL products. Furthermore, the review is likely to investigate any unintended consequences of BNPL regulation, such as potential restrictions to accessing this form of credit for certain groups.

[47] https://www.fca.org.uk/publication/research-notes/deferred-payment-credit.pdf (p. 10). Other analysis has not found a clear link between income and BNPL use: https://bankunderground.co.uk/2023/08/23/shining-light-on-shadow-credit-what-is-buy-now-pay-later-and-who-uses-it/.